

“African Development: Dead Ends and New Beginnings”
A Comment on Prime Minister Meles Zenawi’s Incomplete Monograph
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I. Introduction

While browsing through Ethiopian web pages, I came across a 51 pages long incomplete monograph at www.gsb.columbia.edu/ipd/programmes/item.cfm?prid. The web page is maintained by the *Initiative for Policy Dialogue* unit of the Graduate School of Business, Columbia University. The page is linked to a conference programme, to be held 2-8 August 2006, in Manchester, the United Kingdom. The ‘preliminary draft, not for quotation’ monograph, was authored by Ethiopia’s Prime Minister, Ato Meles Zenawi. It was scheduled to be the first paper of the conference.

In the line up for presentation are two documents by Eleni Gebre Madhin and, another three pages long document that was authored by the Prime Minister’s official economic advisor, Ato Neway Gre-Ab is also on public display. The international line up, among others includes key figures on the British Africa Commission and ex-World Bank officials. Tony Addisson, Nicolas Stern, Bruce Greenwald and Nobel laureate Joseph Stiglitz are among the contributors. There is no other information about the conference. It is unclear whether independent scholars (discussants) or scholars with alternative views have attended the conference.

This commentary focuses on the first paper of the Manchester conference. On its first page the monograph concurs with the spirit of the *Initiative for Policy Dialogue*, and aims to contribute to the policy debate. In the nutshell, in his essay Prime Minister Meles attempts to find theoretical and empirical literature to show that neo-liberal economic paradigm, and thus liberalized third world economies have failed. He further argues that the

liberalization trend that is being carried out throughout Africa should be reversed.

Unfortunately, what is on public display are only extracts of the conclusions of the chapters, and it is only two chapters (chapters 17 and 21) that are given in full. It is unclear whether this is by design or it is meant to support a staged conference. Be it as it may, chapters 17 and 21 contain the main arguments of the essay. The conclusions of the unreleased chapters, when added to the two chapters provide enough sources to examine the Prime Minister's thoughts and contributions, if any.

On its early pages the document outlines sets of promising chapters. It has planned to deal with neo-liberal political economy and social capital; the black box of development; market failure in developing countries; agriculture as an engine of growth; foreign investment and background to the (Asian) agriculture development (Taiwan and Korea); overcoming market failure; accumulating technological capability; the political economy of development in Taiwan and Korea; dependency and development in Korea; the genesis and crisis of the predatory State in Africa; Botswana the exception; neo-liberal diagnosis and prescriptions; outcome of the economic reform; outcome of political reform; some country stories; the African renaissance and the need for a paradigm shift. Even though the monograph looks like a party manifesto, rather than a scholarly work of academic substance, by the line up of the chapters and the intended audience, the essay raises expectations because it is written by a Prime Minister who is in office.

As Derrida notes, a text is not a text unless it hides from a first comer, the laws of its composition and the rules of its games (*Derrida, Dissemination, 1981 page 63*). Prime Minister Meles's monograph does not hide what Derrida expected, at least at the first glance. Its conclusion is the same as its heading. Meles outlines what he alleges are dead ends, but was not able to show, similar to Lenin, where Africa needs to begin. He asserts

that Africa needs a new-new beginning, and the continent should throw away the guiding principles that are enshrined in the founding documents of the African Union, the New Economic Partnership for Africa's Development (NEPAD) and the African Peer Review Mechanism (APRM).

Derrida argues that if a supplement supplements, it fills a void. A supplement is not simply added to the positivity of the presence, but is an indication of a certain lack of original (*of Grammatology, 1976 P. 145*). This void is unfortunately accompanied by scholars of substance and policy advisors, presumably to add credibility, at least by the positivity of their presence. In this commentary I have attempted to show that the Prime Minister's so called "third way", coined as the *democratic developmentalist paradigm*, is neither a new concept, nor is a new set of policy instrument that African countries did not try in the past. The fact that market failures are real and not rhetorical, and need corrective measures, either by policy instruments or by commanding heights, is an old concept as economics itself is.

In Section II the commentary takes a theoretical perspective while in Section III Prime Minister Meles's essay will be examined from a practical-institutional-Ethiopian perspective. I shall attempt to show that Prime Minister Meles's Ethiopia did not apply key instruments of liberalization:- economic or political during his 16 year of rule. Following Derrida, I argue that one cannot blame neo-liberal economic policies when they were not present in the first place. Section IV contains concluding remarks.

II Commentary: A Theoretical Perspective

In his work, *the Pandora box, the reality of science studies*, Bruno shows the link between politics and science, and further outlines how institutions of knowledge, such as policy study centres and their findings, can be used to advance the views of those who control the levers of political power.

In the same line, a beginner's course in methodology shows that a theory may fail either because it is inherently wrong (internal validity), or the model that is used to test the hypothesis or the theory is wrong. Hence, in simple hypothesis testing exercise, such as examining whether neo-liberal economic policies have failed or not, two possibilities exist. If a country has shown GDP growth and its policies somehow can be attributed to neo-liberal policies, the hypothesis that the policy is right is "proved" or at least the hypothesis cannot be rejected. If however growth patterns are disappointing, we conclude that both the policy and the model country are wrong. In the second case it is impossible to decouple the joint hypothesis. Unfortunately, even if one wants to be sympathetic to the Prime Minister's effort, at least from a methodology perspective, he fails into the trap, thus endangering his credibility as scholar of substance.

Prime Minister Meles does neither state the origin of the "the third way" concept, nor does he indicate where the new beginning is going to start from. What is argued in his essay is the return to neo-classics of the '*State and the Market*' argument of the 1970s, no more no less. Hence, I hope I would not be considered to be too critical if I say Ato Meles is the same as certain post modernists, in that both tend to revisit old or existing knowledge domains, and rehash them with new colours, apparently for a new audience.

The two central ideas advanced in the Prime Minister and his associates' works evolve around two technical phrases. They are *market failure and rent seeking*. First, the Tigrean People Liberation Front (TPLF) economists are correct in that there is a problem of market failure, even in highly liberalized economies and sectors, such as in organized equity markets. In their seminal work, Grossman and Stiglitz's '*on the impossibility of informationally efficient markets*,' *American Economic Review*, 70[3], 1980, they show, using mathematical economic models, how the problems of market failure obstructs the achievement of correct price signals. Stiglitz's recent book '*Globalization and its Discontents*' extends the now well-

known market failure problem, and argues that markets did not allocate wealth properly, and worsen the income gap, not only in the United States but also in the rest of the world.

Thus, the findings that market failure in developing countries is sever than in organized equity markets is not news. Mainstream development economists have documented that as far back as in the 1950s (Arthur Lewis, Amarta Sen, John Kenneth Galbreth, Thomas North). Studies on financial globalization and integration (see for example Rene Stulz, Journal of Finance, LX 2005) also indicate the limits to liberalization. For more work on liberalization, integration and growth, in the context of emerging economies, interested readers can consult the works of Rajan and Zingales, Bekaert, Harvey and Lundblad, Greenwood, Goldsmith and Mckinnon, Krugman and the like. The conclusion of these studies is that the net gain from liberalization has been positive.

Returning to Ato Meles's essay, to illustrate "the dead end" of neo-liberal economic paradigm, the Prime Minister unwisely labours on describing, although cursorily, the basic problems of markets: market failure, information, institutions, responsiveness to policy shocks and international financial and aid system. These are standard economic problems: whether one is in Asia, Africa or elsewhere.

To show that world development has had a different pattern, Ato Meles relies on anecdotal economic history, uses stories of the last century, postwar world economic order, and blames the current international power equilibrium and world financial architecture. To support his views the essay cuts and pastes some macroeconomic statistics.

Another observation is Ato Meles conveniently ignores the problems of governance and accountability. He forgets that markets do fail because of the failure of institutions (laws, organizations). Several works have shown that agency and monitoring costs are sever in pubic sector institutions than

in private sector concerns. They are also obstacles to development, especially in countries where crony capitalism is thriving. In other words, minimizing the cost of agency is crucial for the creation of the developmentalist State that Ato Meles wants to establish in Africa.

Finally, from a political perspective, it is important to note that “the third way” was and is seen to be the middle of road between two extremes. It is advanced by the group that calls itself the *Progressive Governance Group*, supposedly a network of social democratic parties that includes Prime Minister Meles. It is common knowledge that social democratic parties are not new institutions in the world. The mainstream economic theories, such as neo-Kenysian economics are embedded in the social democratic paradigm. Today, no one in his or her right mind advocates Marxism openly. Even the doyens of Marxian economic thoughts recognize that liberalized markets are better than opaque economies, in improving the frontiers of the production possibility curve.

Furthermore, it is important to note that the liberalization regimes of 53 African countries cannot be the same. Africa is too big and too diverse to be put in one basket. Hence, its institutions (law, organizations), value systems, ownership and social structures, labour market and level of information asymmetry are different. Hence, one medicine fits all is not only wrong but perpetuates the failed policies of the World Bank and the International Monetary Fund (IMF). Unfortunately Prime Minister Meles’s is doing the same, and his attempt to produce an anti-thesis of neo-liberal policies and a model for Africa, is matter that is often observed in novice scholars.

III Commentary: An Ethiopian Perspective

Ethiopians are used to Prime Minister Meles’s astounding statements. In many respects the present essay is not different from the previous ones. First his theory for Africa has never been tried in his own Ethiopia.

Furthermore, unfortunately neither his long bibliography nor parts of his essay refer to the previous works on the Ethiopian economy by Ethiopian scholars. Evidently Ato Meles is not the first Ethiopian who wrote on African and Ethiopian economies. For instance, Gebrehiwot Baikedagn, the Ethiopian scholar who lived around the beginning of the 19th century, stated the role of the *market and the state*, in the context of the then international economic order as far back as in c1902 (for an annotated translation of Gebre Hiwot's work and the link between the development thought of 19th century scholar and dependencia theory, see the works of Tenkir Bonger). Furthermore, for an excellent summary of the early thought of development and modernization in Ethiopia, Bahiru Zewde's *Pioneers of change in Ethiopia: The reformist intellectuals of the early twentieth century*, *East African studies* (2002), is a must read.

Focussing on the present, the works of the late Eshetu Chole (on fiscal federalism and poverty alleviation); Desalegn Rahmeto's series of papers on land reform and productivity; Fasil Gebre Kiros and Dejene Aredo's papers on rural poverty and female headed households; Befekadu Degefe's works on macroeconomic policy; Mesfin Wolde Mariam's series of works on food policy and governance are essential readings.

After the birth of the Ethiopian Economists Association in the early 1990s, the quality of economic research started improving. The papers became more analytical, and in terms of policy oriented research, the association's show case, *vision 2020*, was by far the best work Ethiopian economists have been able to document, in a language that is well understood by millions of Ethiopians. Unfortunately the participants of the gathering in Manchester do not read Geez scripts, and hence would not be able to access this body of indigenous knowledge. Furthermore, to complicate matters, many of the contributors of that piece, including the association's president, Berhanu Nega, are in prison.

The failed reform in Ethiopia has nothing to do with NEPAD and APRM. The essay confuses 'good' governance with 'democratic' governance. It is important however to note that the two are not the same. 'Good' governance can be achieved under benevolent, autocratic, mono-party and even under a feudal governance system. The key criterion of 'good' governance, in the context of neo-liberal governance paradigm, NEPAD and APRM is multi-partism and contestable power entry and exit system.

The APRM process is nothing other than a performance scorecard. It covers four substantive areas: democracy and political governance, economic governance and management, corporate governance and socio economic development. Ato Meles has yet to undergo through the APRM process. By calling for the so called "third way" Prime Minister Meles and his TPLF dominated government are doing nothing other than refusing to subject themselves to a performance evaluation.

The remaining parts of sections III will focus on two issues. The first is about political governance, and the second is about property right and economic governance. At the end of the section the reader is challenged with one question:- whether neo-liberal liberalizations, as we know them, have been implemented in Ethiopia or not.

Neo-Liberal Instruments of Governance:-

The key to any neo-liberal governance systems is a constitution that focuses on individual liberty and that establishes effective checks and balances. The checks and balances attempt to curb the dysfunctional behaviour of politicians. They limit the term of office of the Presidents/Prime Minister, provide for an independent judiciary, including a constitutional court, an auditor general, an independent election administration and security system that is loyal to the State than to those that control the levers of political powers. The bill of right, among other things, states the sacrosanct nature of private property and of course its tradability. In short, a neo-liberal constitution, despite its limitations,

creates and empowers institutions of accountability. It is up to the reader to gauge whether these instruments of governance have been created during Ato Meles's 15 years of tenure. The answer is clear and it is not a matter of degree. Indeed Africa and Ethiopians can see for themselves that the essay is self-serving.

Property Right and Rent Seeking.-

A quick glance to the TPLF authored constitution shows that both urban and rural land belongs to the Government. In present day Ethiopia, land is a non-tradable asset, legally. It cannot be used as collateral for debt finance. The result is obvious. By making the means of production a non-tradable asset, Ato Meles can only blame himself (other than natural calamities like drought and floods) for the failure of agriculture in Ethiopia.

With regard to urban land, there is no coherent policy. Despite the official rule which states that urban land is "freely given", the reality is that it is cheaper to own a three bedroom family dwelling in Johannesburg than in Addis Abeba.

With regard to trade and finance, it is a well known fact that under the cover of privatization, the previous state owned enterprises (SOEs) were given to the politically connected. TPLF companies not only became the owners of the "privatised" SOEs, but inherited the economic rents. Worse those that grant the licences, allocate foreign exchange and channel credit were politically and socially connected to the ruling regime.

Hence, in almost all the sectors of the economy and governance, political and ethnic connections were critical. Therefore, what has failed in Ethiopia is not neo-liberal economic paradigm. The abandonment of neo-liberal economic policies (if any) will only entrench the crony capitalism that the TPLF government has been trying to build. Crony capitalism can be reversed either through neo-liberal economic revolution or through nationalization. During the 17 years of the military rule Ethiopians saw the

failure of nationalizations. The May 15, 2005 election result was in part a rejection of TPLF's "revolutionary democracy". Therefore, the evidence suggests that there is no "third way".

IV Concluding Remarks: Why the Right is Wrong

Without sounding an arms chair critic of the Prime Minister, by several accounts, his reaction to neo-liberal economic 'paradigm' has been erroneous. This commentary however is not about advancing the "free market" paradigm. It is an attempt to show that market failure is an economic concept that can be applied to almost any situation. In fact there is no economy or market that does not show some degree of inefficiency. With regard to economic behaviour, both rational and irrational (behavioural) economics show the rent seeking behaviour of individuals and groups. The difference is a matter of degree. In crony capitalism it is worse as monitoring is costly, and disfavoured groups will tend to use corruption methods to break the opacity. Furthermore, it is to show that under neo-liberal economic paradigm the existence of the commanding heights is not disallowed.

In the context of Ethiopia, it is the absence of neo-liberal economic paradigm that has stifled growth and democracy. TPLF's revolutionary democracy has worsened both rural and urban poverty. This policy has been tested at the first competitive multiparty election. It is an open secret that liberalization has brought many problems to Ato Meles and his regime.

Concerned by these problems, in a paper entitled *Ethiopia's post election crisis: Institutional Failure and the Role of mediation*, I proposed a two stage solution to the May 15, 2005 election crisis; a political liberalization problem. The release of political prisoners, negotiation with power contenders and independent (preferably international) investigation were proposed. Ato Meles shrugged off, not only the simple idea of conflict resolution, but did not budge to numerous pleas and threats, even from his close supporters in the West.

His response to the domestic problem has been to use force, disinformation, hiring consultants and directing government's bureaucracy to "development". The state controlled media (see for example official web page at walta) does not report anything other than "development". In the political front his speeches and essays did not contain reforms. These policies, together with the change in the geopolitics of the region, have brought him some success, in releasing donor held funds and getting the services of foreign consultants.

However, the political crisis in Ethiopia is like a Cheshire cat, sometimes one sees it, at other times one does not. The civil disobedience seems to have been crushed. On the other hand, the otherwise rival clandestine and legal political groupings have started to consolidate their forces, to the extent of forming an alliance. Whether this alliance is going to be different from other failed alliances is yet to be seen. However, it is important to note that the present alliance is allegedly supported by Ato Meles's arch enemy, Ato Isayas of Eritrea. Foreign based Ethiopian web pages suggest that there are at least three conflict zones. There is also a possibility that some of them are surrogate wars, and the 'border problem' is still in the pan. When this is added to the civil discontent and the series of bombings, the problem becomes complex. As of August 2006, the discontent has started to spread into the army, resulting in the defection of a highly placed commander. The recent development in Southern Somalia is an additional headache for Ato Meles.

Hence, all the above suggest that Prime Minister Meles needs to focus on resolving the internal crisis, and probably defer the completion of his essay. He needs to require more from his consultants and advisors. If he prepares a peaceful transition so that his successors can implement policies that can be ascribed to a neo-liberal paradigm, this part of his work will almost certainly outshine the essay. He would leave a better legacy, which might earn him a credible honorary degree, who knows, it might be from Columbia!